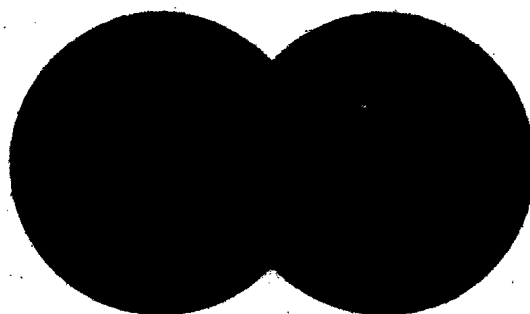


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

The past week has not produced any significant change either in the Berlin impasse or in the Tito-Kremlin dispute. The most definitive development of the week occurred in Palestine when fighting broke out once again between Arab and Jewish forces following the collapse of the UN Mediator's efforts to obtain an extension of the truce.

At week's end, the three major western powers were still awaiting a Soviet reply to their joint protest to the Berlin blockade. The US, British, and French notes declared that threats or pressure will not induce the western powers to withdraw from Berlin. The notes indicated that the western powers are prepared to enter into four-power negotiations on Berlin but declared that movement of supplies and persons between Berlin and the western zones must be fully restored prior to such negotiations. Marshal Sokolovsky, meanwhile, took the position that any lifting of the restrictions would be contingent upon a rescinding of the decisions taken at the London conference on Germany. Indications that a UK counter-embargo on freight shipments to the Soviet Zone is pinching the economy of eastern Germany raised the possibility that the bargaining position of the western powers might be gaining in strength (see page 3). Elsewhere in western Europe, the marked increase in strikes and labor unrest in Italy once more has directed attention to the failure of the De Gasperi Government to develop an effective legislative program to solve Italy's basic economic problems (see page 4).

The prospects for a reconciliation between Tito and the Kremlin appear to be diminishing in the face of Tito's new and emphatic declarations of his position (see page 6). The Soviet Union and the Satellites, except Albania, are still trying to maintain the fiction that the dispute is between national Communist parties, not governments. The longer the dispute remains unresolved, however, the greater the

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the likelihood that Yugoslavia's relationship with the governments of Hungary and Bulgaria will also deteriorate and the harder it will be for the disputants to find a face-saving formula for rapprochement. To bring pressure on Tito, the Kremlin appears to have directed embargoes on certain strategic Satellite exports to Yugoslavia. For the immediate future, however, the Kremlin is expected to move cautiously in applying economic sanctions.

Now that Arab-Jewish hostilities have resumed, the Arabs will seek to reimpose a blockade upon Jerusalem and to isolate Tel Aviv. The success of this strategy is doubtful because of the acute ammunition shortage among Arab forces and the gain in Jewish strength through the apparently illegal acquisition of equipment and personnel during the period of the truce. As a part of the overall Arab efforts to achieve unity and develop a common course of action, the rival Saudi and Hashimite dynasties have now gone through the motions, at least, of achieving a reconciliation. The termination of the truce will present the USSR with improved opportunities for penetration of Palestine and the Middle East (see page 10).

The fall of the Ashida Cabinet in Japan appears inevitable and will probably occur during the extraordinary Diet session expected to be held during July (see page 12). In China, it is apparent that the authority, prestige, and effectiveness of the Chiang Kai-shek government are tobogganing to new lows. The prospects are that authority will now gradually shift from the Nanking regime to provincial military and civil leaders (see page 13).

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WESTERN EUROPE

GERMANY

UN action on the Berlin impasse, in response to the Berlin City Assembly's suggestion, appears unlikely because of lack of support from the western powers. This reluctance among the western powers may be caused by several unfavorable circumstances: the General Assembly does not meet until the end of September; the Security Council is now under the unfriendly presidency of Ukraine Delegate Manuilsky; and the USSR would certainly veto any action which might be approved. Because Article 107 of the Charter removes from UN jurisdiction any action taken by an occupying power against an enemy state, the USSR would probably refuse to permit UN consideration of the problems arising from the Soviet blockade, despite the obvious fact that this move is directed against the Soviet Union's former allies. Confronted with a Soviet veto, the UN would be powerless to act.

The suggestion that the Berlin crisis be referred to the UN is typical of the present tendency to bring all manner of disputes before the international organization without prior analysis of UN ability to take effective action. The UN was not originally intended to work out World War II peace arrangements. Yet the fate of the Italian colonies will probably be settled by the General Assembly under the terms of the Italian peace treaty, and the GA is now seized of the disagreement between the US and the USSR over the Korean occupation.

The British embargo on all freight traffic to the German Soviet Zone, announced on 27 June in response to the Soviet blockade, seems to be pinching the economy of the eastern zone. Marshal Sokolovsky was reportedly shocked by his associates' analyses of the effects expected from the embargo, including stoppage of vital production. Current plans for plant expansion in the iron and steel industries in the Soviet Zone have been affected by the British action. Unless a solution for the Berlin

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GERMANY

impasse is reached quickly, the only action open to the eastern zone is to integrate its economy further into the Soviet-Satellite economy. Meanwhile, Soviet occupation authorities are permitting public discussion of the possibility of shortages resulting from the embargo, thereby preparing the German population for more critical economic conditions than any prevailing since the end of the war.

France will continue to back the US and UK stand in Berlin despite the alarm the French Government has displayed over the possibilities inherent in the Berlin situation. The concern of the French springs, understandably, from their exposed position and lack of military strength. Although the French have tried to act as mediator between the east and west wherever possible, they will continue to cooperate with the US and the UK because: (1) they are already firmly committed to the west; and (2) their unilateral withdrawal from Berlin would probably cause a break with the US and UK that would further weaken the general security position of the French nation.

ITALY

Strikes and general labor dissatisfaction in Italy will probably increase as a result of continuing deterioration of that nation's economy. Industrial activity is lagging in all sections; coal consumption is declining; buyer resistance both at home and abroad is rising; quotations on the stock exchange are falling; and the Government deficit continues to soar. These developments indicate that the De Gasperi Government has yet to present a definite legislative program for the solution of the basic Italian economic problems, such as broad industrial reconversion in order to compete effectively in the international market, agrarian and tax reforms, and retraining of surplus labor. Until some progress is made toward a solution of these problems, Italians will continue to face a low standard of living and growing unemployment.

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SWITZERLAND

The Swiss have neatly parried a Soviet request for an air agreement permitting the operation of a Soviet airline into Zurich. Instead of rejecting the Soviet proposal, which contained no reciprocal arrangement for the Swiss, the Government suggested that the USSR obtain permission to overfly the US occupation zone in Germany before carrying the discussions further. In another action concerning air transport, the Swiss Government recently alerted authorities to watch closely all international air shipments for possible violations of Swiss laws. The Government hopes thereby to eliminate any further use of Swiss airport facilities for clandestine gold shipments by Satellite states and secret arms shipments to Palestine.

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EASTERN EUROPE

YUGOSLAVIA

Eventual reconciliation between Tito and the Kremlin appears to be a diminishing prospect in the face of Tito's determination to keep the initiative by emphatically publicizing his position. Meanwhile, the USSR and the Satellites (except for Albania) continue to maintain the fiction that the dispute is between the Yugoslav Communist Party and the Cominform and not between governments. The door thus is being left open for a bilateral solution between Tito and the Soviet Union. However, there has not yet been any indication of a Kremlin decision on future handling of Tito. In reaching this decision, the Kremlin must face the realization that: (1) the longer the dispute remains unresolved, the more difficult it will be to find a face-saving formula for a rapprochement; and (2) any drastic disciplinary measures against Tito would further endanger the solidarity of the eastern bloc and increase the possibility of an understanding between Tito and the west. Meanwhile, the USSR appears to be making preparations for large-scale rail movements across Hungary. Although these reported preparations may be designed primarily to evacuate Soviet troops and dependents from Hungary, and although Soviet armed intervention in Yugoslavia is unlikely in the immediate future, the fact remains that Hungary is a logical area in which to assemble Soviet troops for an intensive war of nerves against the rebellious Tito.

In taking direct action against the Yugoslav Government, Albania has become the only Satellite to make Tito's defection a governmental as well as a party problem. Albania presumably has taken this strong stand because the Hoxha regime: (1) fears Soviet retaliation more than Yugoslav counteraction; (2) expects Tito's defeat and hopes Albania will thereby gain a more favorable position in the Soviet orbit; (3) resents Yugoslav exploitation of Albania's economy; and (4) wishes to seize this opportunity to end a subservient relationship. Despite the belligerency of Hoxha's attacks on Tito, Yugoslavia is not likely at present to risk the

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YUGOSLAVIA

consequences of an armed attack on Albania. Moreover, so long as Tito's dispute with the Cominform remains unresolved, the possibility increases that Yugoslavia's relations will also deteriorate critically with neighboring Bulgaria and Hungary. Such a development would create additional obstacles to an eventual accommodation between Tito and the Kremlin.

Yugoslav pressure against Greece and Trieste will be considerably lessened as a consequence of Tito's break with the Cominform. In Greece, Tito's recent actions have created obstacles to coordinated support of the Markos regime by Yugoslavia, Bulgaria, and Albania. Also, Tito will be reluctant to divert to Markos scarce war materiel and supplies necessary to strengthen his own position against possible Soviet retaliation. Moreover, because Albania must now rely upon the USSR for its supplies, Albania's contribution to the Markos forces can be expected gradually to decrease or at least become more spasmodic. In Trieste, Yugoslavia has lost the support of the local Communist Party which, despite its former dependence on the Yugoslav Communist Party for directives and funds, is hewing to the Cominform line. Yugoslavia has thus been denied its most effective weapon for economic and political infiltration of Trieste.

The possibility of Yugoslav economic overtures to the west will cause the Kremlin to proceed slowly and cautiously in threatening Tito with economic sanctions. Initially at least, any curtailment of Soviet-Satellite exports to Yugoslavia will be made only on strategic materials, such as munitions and oil, which would directly strengthen Yugoslavia's military potential. Already, shipments of Hungarian exports to Yugoslavia are reported to have been stopped while Rumanian oil destined for Yugoslavia has reportedly been diverted to Bulgaria. Czechoslovakia, which

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11017 Map Branch, CIA, 7-48

● Establishment: a captured key town on approach to guerrilla inner defenses.

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YUGOSLAVIA

is currently facing economic difficulties resulting from unsatisfactory trade relations with the other Satellites, may add to the Kremlin's problem by seizing upon the present Yugoslav situation as a pretext for increasing trade with the west, claiming that the reduction of exports to Yugoslavia makes it necessary. Possibly in anticipation of increased Soviet economic pressure, Yugoslavia has recently become more accommodating in economic negotiations with Italy.

GREECE

The Greek Army's offensive against the guerrilla stronghold in the Grammos Mountains is approaching a critical stage. Guerrilla resistance is as strong as ever, and the Markos forces have vigorously counterattacked in the Grammos area itself and have conducted diversionary raids elsewhere. Nevertheless, by maintaining steady pressure on all fronts, the Greek Army has tightened its net everywhere except in the southwest sector along the Albanian border and has succeeded in capturing the key town of Eptakhorion. Moreover, the guerrillas, who number approximately 7,500 in the Grammos area, now appear to have been completely committed, and there is evidence that the pressure of air bombardment, artillery fire, and infantry attack has begun to tell on their morale. It is therefore possible that the Greek Army's seizure of Eptakhorion, which guarded the approach to the guerrilla final line of resistance in the core of the Grammos range, will force the guerrillas to withdraw rapidly to a shorter line of inner defenses and eventually into Albania.

SOVIET UNION

The tempo of Soviet purchases of such strategic raw materials as rubber, wool, and cotton has accelerated; concurrently, the USSR has made substantial transfers of funds from the US and UK. These purchases in many cases are reported to have been made above market prices and against dollars rather than sterling as stipulated

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SECRET**SOVIET UNION**

in the original contract. The primary Soviet motivations in these actions appear to be: (1) an urgent need for these specific raw materials for current production and stockpiling; (2) a desire to establish channels for future trade in order to meet expected competition from western buyers; and (3) a previous inability to utilize dollar balances for the purchase of US equipment.

The USSR continues to rely heavily on German production for the rehabilitation of its war-damaged railway stock and the replacement of war losses in locomotives and rolling stock. An estimated 10,000 to 20,000 carloads of German railway transport equipment moved eastward through railroad stations on the Polish border during the first four months of 1948. Of some 5,000 carloads on which reports are available, the bulk of the shipments consisted of rails and ties; the remainder was rolling stock, most of which had been newly constructed. Acquisition of this equipment helps the USSR to cope with its present shortage of steel for all industrial purposes and relieves it from converting vital industrial capacity.

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NEAR EAST - AFRICA

PALESTINE

In the resumption of Arab-Jewish hostilities in Palestine, following UN Mediator Bernadotte's failure to obtain a continuation of the truce, Jewish forces will probably attempt to consolidate their positions in the coastal area and Galilee and to gain control of Jerusalem. The Arabs will probably try to break the military stalemate which had developed prior to the truce. They will attempt to reimpose their blockade of Jerusalem by cutting the Tel Aviv supply route and will try to isolate Tel Aviv from the hinterland by making concerted advances with the Egyptian, Transjordan, and Iraqi Armies. The Syrian Army will probably launch a limited offensive in northeastern Galilee. The success of the Arab campaign is doubtful in view of acute ammunition shortages. If the Arabs are unable to force political concessions from Israel within the next two months, they will have to limit the scope of their military activities and adopt guerrilla tactics as their long-term military policy.

The USSR will have renewed opportunities in Palestine for Communist penetration following the ending of the truce. For the first time, Israel will be in complete control of Haifa and, barring further UN action, will have complete control over immigration. The Soviet Union will encourage Jewish emigration from the Satellite countries and will continue to intersperse these immigrants with trained Soviet agents. Moreover, the Cyprus internees, among whom are a number of Communist agents, will probably enter Israel in the very near future.

ARAB STATES

The rival Saudi and Hashimite dynasties have at long last been brought together in the flesh, if not in spirit. On 26 June, King Abdullah of Transjordan dined with Crown Prince

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SECRET**ARAB STATES**

Saud at Dhahran Air Base, and a few days later he visited King Ibn Saud at Riyadh. The principal result of the meetings was an announcement that the two kings had agreed to "wipe out the past" and were united in determination never to accept a Jewish state in Palestine. Ibn Saud, moreover, promised that Saudi Arabian troops would take a more active part in Palestine if a solution acceptable to the Arabs did not materialize. Such statements meet the Arab popular demand for unity which in large measure brought about the meetings, but it is still too early to determine how genuine a reconciliation has taken place between the two rival monarchs. In alluding at the Dhahran meeting to their respective US and British ties, Prince Saud and Abdullah sounded as though they were trying to impress each other with the importance of their outside friendships. The meetings do, however, represent a significant step forward in the Arab attempt to achieve unity and to work out a common course of action in Palestine.

IRAN

Recent Soviet diplomatic and subversive pressures have only strengthened Iran's feeling of membership in the western camp. Successive Soviet-contrived border incidents have not only failed to achieve any local success but have also hampered Soviet efforts to sway the Iranian Government. The publicity given these incidents by Iran has irritated the USSR and has heightened anti-Soviet feeling within Iran. When the Soviet Ambassador proclaimed to Prime Minister Hajir that all outstanding differences between Iran and the USSR could be settled as soon as Iran dropped its "inadmissible" alignment with the US, Hajir warmly insisted on the sovereign rights of his government and stated bluntly that Iran would support the western bloc in the event of war. The old Iranian tendency to vacillate is still evident, however, and Hajir is seeking the advice of the US on the wisdom of leaving "the door half-open" to the USSR.

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F A R E A S T

JAPAN

A new Soviet effort to build up trade between Japan and the island of Sakhalin is evident in the recent suggestion by the Soviet trade representative in Tokyo that Japan might be able to obtain much-needed supplies of iron ore from the Sakhalin deposits. The primary Soviet aims in such an approach apparently are: (1) to barter for Japanese items which are needed to build up Sakhalin's economy, such as railroad rolling stock; and (2) to establish some Japanese economic dependence on the USSR as a basis for subsequent political penetration. At present, Japan is encountering substantial difficulties in obtaining iron ore from such traditional sources as the Philippines, Hainan, the Yangtze Valley in China, Malaya, India, and Indochina.

The Ashida Cabinet in Japan appears ready to fall. Its demise may come in a no-confidence vote during the extraordinary session of the Diet expected to be convened in July. Following the fall of the Ashida coalition government, during this or a later crisis, one of two things will occur. Either Ashida will call for a general election, thereby taking his government's case to the people, or a new government dominated by the Democratic-Liberal party will be formed. The new Cabinet, which will probably be headed by the Democratic-Liberals, may include representatives from a single party or a coalition, depending upon the distribution of power among the various splinter parties and Ashida's Democrats.

INDONESIA

Indonesian factions appear to be demonstrating an increasing tendency toward unity and cooperation. Representatives of the principal states in present Dutch territory have drafted their own plan which calls for collaboration with the Republic

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INDONESIA

in the formation of an interim government prior to the establishment of a federal government. In general, this plan is compatible with the US-Australian draft paper which was favorably received by non-Republican delegates to the Bandoeng conference recently convened by the Dutch.

CHINA

The authority, prestige, and effectiveness of Chiang Kai-shek's government has fallen to a new low as indicated by the recent military debacle on the Kaifeng front and the collapse of the Chinese dollar on commodity and foreign exchange markets. Military morale has become so bad that Nationalist soldiers retreat from threatened positions in order to avoid combat, as they did at Kaifeng recently. Economically, the Chinese situation deteriorates from week to week, and it has passed all limits long accepted as breaking points for the more brittle industrial economies of Europe and America. The National Government has offered no constructive action to restore stability and Chiang seems to be devoting a major part of his efforts toward keeping himself in his present position.

Confronted with this steady disintegration, military and civil leaders in the provinces find themselves increasingly forced to consider the adoption of regional understandings and regional political associations. The trend toward these loose amalgamations is especially strong in North China where any such arrangements might include negotiations with Communists. These maneuverings do not constitute a rebellion against Chiang Kai-shek. Present provincial leaders are merely bracing themselves for what they feel is Chiang's inevitable downfall and are hoping through the associations to retain their present positions. The present structure of the Chinese National Government will probably remain intact while its authority gradually shifts to the hands of the provincial military and civil leaders.

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WESTERN HEMISPHERE

Sale of US aircraft throughout the world will be facilitated under the terms of a convention adopted by the Second Assembly of the International Civil Aviation Organization (ICAO). This convention, long desired by the US as the world's leading aircraft producer, will expedite the financing of aircraft purchases by providing maximum legal protection for those purchasing aircraft for international service. Major civil air powers who have already signed the convention include the US, Argentina, Belgium, Brazil, China, France, Portugal, Netherlands, and the UK.

CUBA

Communist influence over organized labor has been weakened and a general strike threatened by Cuban sugar workers has been forestalled by President Grau's decree that wages in the sugar industry are to remain at their present levels until 1 December 1948. This leaves unsolved the politically explosive situation inherent in a national economy based solely on sugar, the price of which is declining. This serious economic problem will be left for Grau's successor, President-elect Priol.

CANADA

Canadian interest in a North Atlantic security pact that would include the US and western European union nations has been indicated in two recent official statements. During a budget speech before the House of Commons, in which he attempted to justify Canada's present small defense establishment, Defense Minister Claxton stated that he would like to see Canada aligned with the five nations which signed the Brussels treaty. Minister of External Affairs St. Laurent recently declared that Canada favored a regional pact which would include the European union nations, the US, and Canada.

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